Changing the 5-Year FAS Period in LEOFF 2

Marty McCaulay
Office of the State Actuary
July 6, 2005

Compensation

- Salary plus overtime and deferred compensation
- Excludes lump sum payments for sick, vacation, and annual leave
- Excludes severance pay

5-Year FAS Period

- Current formula uses 5-year final average salary (FAS)
- Average compensation for highest 60 consecutive months
- Benefit = 2% x service x FAS

5-Year FAS Period

- Benefit = 2% x service x FAS
- Example: 25 years of service
- 5-year pay history - $60,000; $56,000, $52,000; $51,000; $51,000
- 5-year FAS = $54,000
- Annual benefit = 2% x 25 x $54,000 = $27,000

3-Year FAS Period

- Proposed 3-year final average salary
- Benefit = 2% x service x FAS
- Example: 25 years of service
- 3-year pay history - $60,000; $56,000; $52,000
- 3-year FAS = $56,000
- Annual benefit = 2% x 25 x $56,000 = $28,000

2-Year FAS Period

- Proposed 2-year final average salary
- Benefit = 2% x service x FAS
- Example: 25 years of service
- 2-year pay history - $60,000; $56,000
- 2-year FAS = $58,000
- Annual benefit = 2% x 25 x $58,000 = $29,000

FAS with 4.5% Increases

	FAS 5	FAS 3	FAS 2
2004	$69,000	$69,000	$69,000
2003	$66,029	$66,029	$66,029
2002	$63,185	$63,185	
2001	$60,464		
2000	$57,861		
Average	$63,308	$66,071	$67,514

FAS with 4.5% Increases

- Current pay $69,000
- 5-year FAS = $63,308
- 3-year FAS = $66,071
- 4.4% greater than 5-year FAS
- 2-year FAS = $67,541
- 6.6% greater than 5-year FAS

FAS 2 Rate Increase

- Liabilities increase 6.7% or $320 million
- Rate increase = liability increase / PVFS
- PVFS = Present Value of Future Salaries
- $0.320 billion / $12 billion = 2.64%
- 1.32% member
- 0.79% employer
- 0.53% state

FAS 3 Rate Increase

- Liabilities increase 4.4% or $211 million
- Rate increase = liability increase / PVFS
- PVFS = Present Value of Future Salaries
- $0.211 billion / $12 billion = 1.74%
- 0.87% member
- 0.52% employer
- 0.35% state

FAS 2 – Future Service

- Proposed 2-year final average salary
- Future service only
- FAS 5 before effective date of change
- Example: 10 years of past service, 15 years of future service
- FAS 2 = $58,000, FAS 5 = $54,000
- Annual benefit = (2% x 10 x $54,000) + (2% x 15 x $58,000) = $28,200

FAS 3 – Future Service

- Proposed 3-year final average salary
- Future service only
- FAS 5 before effective date of change
- Example: 10 years of past service, 15 years of future service
- FAS 3 = $56,000, FAS 5 = $54,000
- Annual benefit = (2% x 10 x $54,000) + (2% x 15 x $56,000) = $27,600

FAS 2 Future Service Rate Increase

- Liabilities increase 3.2% or $155 million
- Rate increase = liability increase / PVFS
- PVFS = Present Value of Future Salaries
- $0.155 billion / $12 billion = 1.28%
- 0.64% member
- 0.38% employer
- 0.26% state

FAS 3 Future Service Rate Increase

- Liabilities increase 3.2% or $102 million
- Rate increase = liability increase / PVFS
- PVFS = Present Value of Future Salaries
- $0.102 billion / $12 billion = 0.84%
- 0.42% member
- 0.25% employer
- 0.17% state

Summary of Cost

- FAS 2 all service: most expensive (2.64%)
- FAS 3 future service: least expensive (0.84%)
- Initially FAS 3 all service (1.74%) more expensive than FAS 2 future (1.28%)
- Eventually FAS 2 future (1.28%) more expensive than FAS 3 all service (0.84% for new entrants)

Changing the 5-Year FAS Period

- A shorter FAS period provides a greater benefit increase to members with above average pay increases.
- The shorter the FAS period, the greater the impact of above average increases in compensation in the final year of employment